October 11, 2001
Council of the District of Columbia
PUBLIC HEARING ON BILL 14-30, "FEE COLLECTION INCENTIVE ACT OF 2001" AND BILL 14-101, "HOMESTEAD AND SENIOR CITIZEN REAL PROPERTY TAX AMENDMENT ACT OF 2001"

Testimony of Herbert J. Huff, Deputy Chief Financial Officer for Tax and Revenue, before the Committee on Finance and Revenue

Good morning, Chairman Evans, members of the Committee on Finance and Revenue and members of the Council of the District of Columbia. I am Herbert Huff, Deputy Chief Financial Officer for Tax and Revenue. With me today are Henry Riley, Director of the Real Property Tax Administration for the Office of Tax and Revenue (OTR), and Robert McKeon, Staff Attorney with OTR's General Counsel's office.

We are pleased to present testimony on Bill 14-101, the "Homestead and Senior Citizen Real Property Tax Amendment Act of 2001." Bill 14-101 streamlines, clarifies, and simplifies several provisions in the DC Code governing the District's homestead and senior citizen deduction programs.

Homestead and senior citizen deductions are important benefits that provide tax relief to qualified District of Columbia homeowners. The benefits are calculated and applied according to tax rate classification, the owner-occupancy status, and are granted upon proper application by a property owner.

Earlier this year, the Council adopted emergency and temporary legislation repealing the 5-year homestead renewal requirement, known as quinquennial filing. This change, which would become permanent under Bill 14-101, relieves property owners of the inconvenience of re-filing on the same property when most owner's eligibility does not change from year to year. Eliminating 5-year re-applications also reduces administrative and processing burdens on the Homestead Audit Unit.

There are typically two circumstances under which homestead eligibility changes: (1) when a property transfers; or (2) when an owner moves from and rents the property. OTR regularly conducts audits and confirmations of homestead/senior citizen eligibility for a smaller universe of properties at a given time, as opposed to a lump filing of 100,000 homestead applications. In FY 2001, OTR undertook a major reconfirmation effort, mailing more than 15,000 homestead confirmation notices.

Additionally, in the case of real property transfers, the Real Property Tax Administration, through new automated systems, has begun the systematic audit of all real property transfers at the time of sale. If a homestead application is not presented with the deed of transfer, the benefit is removed.

For real property accounts where an owner has moved and now rents the property, the Real Property Tax Administration, using new automated systems, conducts systematic audits of accounts using reconfirmation application mailings and audits to verify suspect accounts.

Property owners continue to be responsible for notifying OTR when their homestead eligibility ceases. Those who do not inform the department within 30 days after the change in eligibility will be assessed appropriate taxes, penalties, and interest from the date of ineligibility.

As you know, there have been problems historically with the homestead program, both in terms of administration and taxpayer compliance. The problems go back several years and stem from a variety of sources, but most problems are associated with three primary deficiencies: (1) difficulty in administering tax laws; (2) lack of automation; and (3) difficulty in executing timely enforcement on ineligible properties.

The homestead program is only one of the many OTR initiatives directly serving real property taxpayers. Resources dedicated to the homestead program are balanced in concert with both the overall mission of OTR and the demands of real property tax management.

We have made substantial financial investments in real property tax administration in order to serve property owners and to protect revenue. Over the past few years, the agency has employed a number of mechanisms to improve operations, including outside audits, a major departmental reorganization, and several automation sub-systems. These systems were designed to provide stop-gap improvements to real property tax management while allowing the continuation of real property tax services.

In one of the most significant developments, last year OTR brought its "RPT2000" and Land Record Management systems online after several years of development. These systems are used by the Real Property Tax Administration to maintain homestead accounts, provide up-to-date real estate activity, keep property ownership current to within 2 weeks of property transfer, and offer more accurate real property tax billing.

As early as 1997, OTR began linking real property data with other city information systems; however, this was not a routine process and could only be done with the production of paper reports. These links assisted OTR in identifying problem accounts and verifying eligibility. Through our new Integrated Tax System (ITS), a data warehouse component has been implemented to link telephone data, motor vehicle registrations and licenses, voter registration, income and business tax files, and vital statistic records for audit purposes. While still in development, we are using the data warehouse database to investigate suspicious homestead accounts.

From FY 1999 to FY 2001, more than 10,000 real property accounts were audited and removed from the homestead program. The homestead audit analysis continues today, and both audits and billings are being made for current and prior years. In addition, OTR is working closely with the Department of Consumer and Regulatory Affairs to identify and address properties that are vacant and abandoned. Through these data links and property surveys, we have removed several hundred vacant and abandoned properties from homestead eligibility, and we continue to explore new program initiatives to help address and prevent neighborhood blight while protecting property values.

Data linking and data warehousing are demanding projects. Cleaning and maintaining homestead accounts are equally challenging and complex tasks, while determining property owner eligibility calls for detailed analyses approaching the level of forensic science. Unfortunately, it is not always a simple matter of having an application on-file. The transient nature of a metropolitan city such as the District of Columbia makes it challenging to keep track of property status, such as whether a property has become vacant, abandoned, rented or when it ceases to be owner-occupied. Further complicating matters, owners acquire multiple properties, co-owners and spouses have different surnames, and billing addresses are often different from the homestead property address. Any of these factors may or may not affect a property's eligibility. Staying abreast of such changing conditions requires resources and constant collaboration between several government agencies, as well as a number of private sector entities, such as utilities.

OTR's enhanced automation, data warehousing, and audit functions go a long way to address these challenges, but a variety of legislative changes are needed to improve real property tax processes and the homestead/senior citizen deduction programs.

This bill addresses several of these needs and clears up current ambiguities in existing law. It strengthens eligibility and reporting requirements for real property benefits, and provides retroactive benefits and adjustments to owners whose property classifications change after the first and second property tax billing periods.

Also under the bill, real property taxes for each type of tax reduction – homestead, senior citizen and Class 1 rate – will now either be applied for the full or half-year. Thus, the bill will remove the prorated portion of existing law and replace it with granting the credit for either the full tax year or one half of the tax year. Under previous law, a purchaser's homestead benefits and tax bill would have been prorated to the time of purchase, which could mean a shorter tax deduction period and, thus, a smaller tax reduction. In addition, the prorating system was extremely complicated and a time-consuming administrative process that caused delays for title companies, auditors, and taxpayers.

Another important clarification is a new definition of the term "residence." The definition provides that a person is allowed to have one homestead deduction at his or her principal place of residence in the District. This means the property owner may own property in another state and still get the homestead deduction, as long as he or she has only one such deduction in the District.

The bill further establishes the one-homestead-deduction-per-customer rule by stating that anyone who claims more than one such deduction without notifying the Mayor of changes in eligibility will have all homestead deductions rescinded.

Finally, the bill eliminates the requirement that a homeowner be subject to District income tax as a qualification for homestead deductions. With only one residential property tax rate in FY 2002, the homestead benefit will now be given to those residential properties that are owner occupied. This change will streamline the administrative and audit processes of granting the homestead credit.

We recognize there is opportunity to fine-tune this proposed legislation as it travels through the legislative process. To this end, we recommend an amendment mandating that homestead applicants provide their Social Security numbers. The amendment would state: "OTR shall not grant homestead or senior benefits should a property owner fail to submit the Social Security number for the homeowner with an application or reconfirmation filing for the homestead or senior benefits."

This requirement would further strengthen OTR's ability to verify homestead eligibility by allowing us to easily link homestead data with other residency verification tools.

Thank you, Chairman Evans and members of the Council for this opportunity to testify. We will be happy to answer any questions you may have.